

COMPARATIVE TAXATION OF CORPORATIONS IN SELECTED CITIES
IN IOWA AND THE SURROUNDING STATES

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CHAPTER I

THE PROBLEM AND THE HYPOTHETICAL CORPORATION MODEL

I. THE PROBLEM

There is a lack of comparative corporate tax data among cities and states. An industrial firm attempting to determine the optimum plant location faces a confusing array of taxes from city to city.

This report will focus on state and local taxation of corporations in the major cities of Iowa and the surrounding states of Minnesota, Wisconsin, Illinois, Missouri, Kansas, Nebraska, and South Dakota. A determination will be made of the relative taxation of a corporation in selected cities in these states.

State legislatures often look to increased corporate taxation as a lucrative source of revenue and yet are concerned that high corporate taxes hinder industrial development. This study will also attempt to determine the effect of corporate taxes on industrial development.

The largest cities in each state were selected for the study. A few cities were omitted if it was not possible to obtain complete information. Special emphasis was placed on corporate taxation in Des Moines. Taxes in St. Louis and Kansas City, Missouri are especially complex and the tax situation in these cities is explained in more depth.

The most important tax, in terms of costs to the corporation, is the property tax. County or city assessors were contacted, whenever possible, to determine the property tax rate and the method of valuation

and assessment of property. State tax commissions and business groups were also contacted to obtain the necessary tax information.

First, the tax situation in each state will be summarized. Then each different type of tax will be compared on a state by state basis. Next, the actual taxation of a hypothetical corporation on a cash accounting basis will be compared in each of the 32 cities with different types of intercity tax comparisons made. Finally, an attempt will be made to determine if there is a correlation between taxes and industrial development.

II. THE HYPOTHETICAL CORPORATION MODEL

As an aid in understanding and comparing taxes among the cities in the study, a hypothetical corporation will be used. This corporation is thought to be "average" in that the proportion of different types of taxes would be typical of most industrial firms. The facts of the hypothetical corporation are:

1. Total par value of capital stock - \$500,000.
2. Cost of building and land - \$1,000,000.
3. Cost of machinery - \$200,000.
4. Average monthly inventory at cost - \$200,000.
5. Annual sales - \$2,000,000.
6. Annual profit before deduction of taxes - \$200,000.
7. Cash and securities - \$20,000.
8. Assume that all income is derived from within the state (domestic corporation).

9. Building and machinery are new so depreciation is not a factor.
10. All property of the corporation is assumed to be within the city limits.
11. The tax data used is the most current available at the time of writing. The information was requested during the period of January - July, 1969.

CHAPTER II

SUMMARY OF STATE AND LOCAL TAXES

I. MISSOURI

Corporate organization fees. The organization fee is \$53 for the first \$30,000 of capitalization plus \$5 for each additional \$10,000 of capitalization.¹ In the hypothetical corporation, this would be \$288.

Corporate franchise tax and other annual fees. This is an annual tax which is 1/20 of 1% of capital and surplus, or total assets, whichever is greater.² The tax would be applied to the assets of the hypothetical corporation, and the annual tax would be \$710. Foreign corporations are taxed only on that portion of capital and surplus or assets used within the state.

In addition to the franchise tax, there is the Corporation Annual Registration and Anti-Trust Affidavit Fee of \$10 per year.³

Corporate income tax. The corporate income tax is a relatively low 2%.⁴ It allows deduction of the federal income tax and applies only

¹Management's Guide to Missouri Taxes, State of Missouri, Division of Commerce and Industrial Development, 1968, p. 19.

²Ibid., p. 4.

³Ibid., p. 19.

⁴Ibid., p. 5.

to income earned within the state. The annual tax of the hypothetical corporation would be \$1,800.¹

Intangible property tax. This is a tax on certain types of securities held by a corporation. It is 4% of the yield for items such as cash on deposit, non-exempt bonds, and accounts receivable.² The state collects the tax but returns the proceeds to the local government. For the hypothetical corporation the annual intangible property tax would be \$40.³

Property and other local taxes. The primary local tax is the property tax on real estate, machinery, and inventories. The normal assessment ratio is 30% of market value.⁴ Due to the variations and exceptions in local taxes among the Missouri cities, each city in the study will be analyzed separately.

¹The state corporate income tax would actually vary slightly in each city. If local taxes would be relatively higher in a particular city, the deduction would be higher and the resultant state income tax would be less. However, the differences would not be significant and the state income tax in the median tax city is shown for all states in this study.

²Management's Guide to Missouri Taxes, op. cit., p. 7.

³An assumption was made that there would be an average yield of 5% on the cash and securities held by the corporation. The yield of \$1,000 would then be taxed at the 4% rate. The assumption was made that there would be no interest income resulting from accounts receivable.

⁴Management's Guide to Missouri Taxes, op. cit., p. 11.

St. Louis --

- A. Real estate property tax. Assessment ratio - 35%. Tax rate - \$5.32 per \$100 of assessed valuation.¹ Tax for hypothetical corporation - \$18,620.
- B. Ad valorem license tax (based on inventories and machinery). Assessment ratio - 35%. Tax rate - \$4.08 per \$100 of assessed valuation.² Tax for hypothetical corporation - \$5,712.
- C. Sales tax. \$1.75 per \$1,000 of sales, to be paid by the business.³ Tax for the hypothetical corporation - \$3,500.
- D. Earnings tax. 1% of net profits obtained from business activity in the St. Louis area.⁴ Assuming 20% of the profits result from business in the St. Louis area, the annual tax of the hypothetical corporation would be \$180.

The total amount of local taxes in St. Louis would be \$28,012.

Kansas City --

- A. Property tax. The assessment ratio of real estate is 30%, of inventory 50%, and of machinery 33%.⁵ Because of 3

¹Letter from Chamber of Commerce of Metropolitan St. Louis, June 26, 1969.

²Ibid.

³Tax information received from the Chamber of Commerce of Metropolitan St. Louis, February 28, 1969.

⁴Ibid.

⁵Tax information received from the Chamber of Commerce of Greater Kansas City, April 16, 1969.

county governments and numerous school districts within the city limits, there are many variations of tax rates. The Jackson County tax rate of \$6.32 per \$100 of assessed valuation was used for the example.¹ The property tax in the hypothetical corporation would be \$29,451.

B. City occupational license fee. This tax is 85¢ per \$1,000 of annual gross receipts.² This would be \$1,700 in the hypothetical corporation.

C. There is an earning tax of 1/2 of 1% from earnings within the city.³ Assuming that 20% of the earnings result from within the city, the tax for the hypothetical corporation would be \$90.

The total amount of local taxes in Kansas City would be \$31,241.

St. Joseph --

Property tax. Assessment ratio, 30%. Tax rate, \$7.29 per \$100 of assessed valuation.⁴ Total local taxes for hypothetical corporation, \$30,618.

Springfield --

Property tax. Assessment ratio, 30%. Tax rate, \$6.06 per \$100

¹Ibid. ²Ibid. ³Ibid.

⁴Letter and tax information received from the St. Joseph Chamber of Commerce, April 17, 1969.

of assessed valuation.¹ Total local taxes for hypothetical corporation, \$25,452.

Columbia --

A. Property tax. Assessment ratio, 30%. Tax rate, \$6.42 per \$100 of assessed valuation.² Total property taxes, \$26,964.

B. City manufacturer's license fee. There is a city manufacturer's license fee of \$175 per year.³

The total local taxes for the hypothetical corporation would be \$27,139.

A summary of these various Missouri property taxes will be found in Table I.

¹Tax information received from the Springfield Chamber of Commerce, March 4, 1969.

²Tax information received from the Columbia Chamber of Commerce, March 3, 1969.

³Ibid.

TABLE I

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN MISSOURI
FOR A HYPOTHETICAL CORPORATION

| City | Market value of property | Assessment ratio | Valuation | Tax rate per \$100 of assessed valuation | Total property tax |
|-------------|---|---------------------|------------------------------|---|--------------------------|
| St. Louis | \$1,000,000 (real estate) 400,000 (inventory, machinery) | 35% 35% | \$350,000 120,000 | \$5.32 } 4.08 } | \$24,332 |
| Kansas City | 1,000,000 (real estate) 200,000 (inventory) 200,000 (machinery) | 30% 50% 33% | 300,000 100,000 66,600 | 6.32 } 6.32 } 6.32 } | 29,451 |
| St. Joseph | 1,400,000 (all property) | 30% | 420,000 | 7.29 | 30,618 |
| Springfield | 1,400,000 (all property) | 30% | 420,000 | 6.06 | 25,452 |
| Columbia | 1,400,000 (all property) | 30% | 420,000 | 6.42 | 26,964 |

II. KANSAS

Organization fees. The initial fee to organize a corporation in Kansas consists of three separate items:¹

1. Application fee of \$25.
2. Filing and recording fee of \$2.50.
3. Capitalization fee. This fee is based on the proportion of its issued capital which the corporation proposes to invest and use within the state. It is 1/10 of 1% for the first \$100,000 of capitalization and 1/20 of 1% for everything over this amount. In the hypothetical corporation this fee would be \$300.

Annual corporation fees. There is also an annual fee based on issued capital stock. The fee schedule is as follows:²

| <u>Capital stock</u> | <u>Fee</u> |
|---------------------------|------------|
| \$10,000 or less | \$10 |
| \$10,000 - \$25,000 | 25 |
| \$25,000 - \$50,000 | 50 |
| \$50,000 - \$100,000 | 100 |
| \$100,000 - \$250,000 | 125 |
| \$250,000 - \$500,000 | 250 |
| \$500,000 - \$1,000,000 | 500 |
| \$1,000,000 - \$2,000,000 | 1,000 |
| \$2,000,000 - \$3,000,000 | 1,500 |
| \$3,000,000 - \$5,000,000 | 2,000 |
| Over \$5,000,000 | 2,500 |

¹Prentice-Hall State and Local Tax Service (Kansas chart of state tax systems. New York: Prentice-Hall, Inc., April 22, 1969), p. 201.

²Ibid.

The schedule shows that the hypothetical corporation would pay \$500 annually.

Income tax. The Kansas income tax applicable to corporations is $4\frac{1}{2}\%$.¹ This applies to income derived from business within the state. Federal income taxes may be deducted before the state tax is computed. The tax of the hypothetical corporation would be \$3,825.

Property tax (intangible). There is a tax on intangible property. The corporation may elect one of two ways to pay:²

1. Five mills per dollar of actual value of money, credits, notes, and other evidence of debt.
2. Three per cent of the income derived from this intangible property.

Ordinarily the second alternative would be most advantageous. Using the second method, the annual tax would be \$30 per year for the hypothetical corporation.³

Property tax (tangible). This is a local tax administered by the county. The state requires all property to be assessed at 30% of market value.⁴ However, there is not complete compliance with this requirement

¹Ibid. ²Ibid.

³An assumption was made that there would be an average yield of 5% on the cash and securities held by the corporation. The yield of \$1,000 would then be taxed at the 3% rate.

⁴Memorandum of the Research Department, Kansas Legislative Council, October 16, 1968, p. 5.

in the selected cities shown below. It was indicated that they are in the process of reassessing the tangible property and will meet the 30% requirement in the near future. The tax rates for the hypothetical corporation in the selected cities are shown in Table II.

TABLE II

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN KANSAS
FOR A HYPOTHETICAL CORPORATION

| City | Market value of property | Assessment ratio | Valuation | Tax rate* per \$100 of assessed valuation | Total property tax |
|-----------------|--------------------------------|---------------------|-----------|--|--------------------------|
| Topeka** | \$1,400,000 | 18% | \$252,000 | \$14.123 | \$35,589 |
| Wichita*** | 1,400,000 | 30% | 420,000 | 10.946 | 45,974 |
| Kansas City**** | 1,000,000 (real estate) | 12% | 120,000 | 19.088 | 45,812 |
| | 400,000 (personal property) | 30% | 120,000 | 19.088 | |

*There are variations of tax rates within Topeka and Kansas City. The median tax rate was selected for this illustration.

**Shawnee County Tax Levy Schedule, Shawnee County Clerk, September 30, 1968.

***Tax information received from the Wichita Chamber of Commerce, February 28, 1969.

****Letter from J. G. Novak, Wyandotte County Assessor, February 10, 1969.

III. NEBRASKA

Organization and filing fees. The filing fee for a foreign corporation is a flat \$50.¹ For domestic corporations, the fee is based on the amount of capital stock. This schedule is:²

| <u>Capital stock</u> | <u>Fee</u> |
|--|------------|
| Up to \$10,000 | \$10 |
| \$10,001 to \$25,000 | \$20 |
| \$25,001 to \$100,000 | \$50 |
| Plus 50¢ for each \$1,000 over \$100,000 of capital stock. | |

The fee for the hypothetical corporation would be \$250. In addition there is a recording fee of \$1 applicable to both domestic and foreign corporations.³

Occupation tax fee. This fee is based upon the amount of assets in the state for foreign corporations and the amount of capital stock for domestic corporations. A condensed schedule of the rates is shown below:⁴

¹Industrial Tax Information for Metropolitan Omaha, Omaha Chamber of Commerce; Revised, December, 1967, p. 3.

²Ibid. ³Ibid.

⁴Schedule received from Frank March, Secretary of State for the state of Nebraska, January 30, 1969.

| <u>Assets or capital stock</u> | <u>Fee of foreign corporations</u> | <u>Fee of domestic corporations</u> |
|--|--|---|
| \$10,000 or less | \$20.00 | \$10.00 |
| \$50,000 or less | 75.00 | 37.50 |
| \$100,000 or less | 150.00 | 75.00 |
| \$200,000 or less | 270.00 | 135.00 |
| \$500,000 or less | 600.00 | 300.00 |
| \$1,000,000 or less | 1,000.00 | 500.00 |
| For each additional million or fraction thereof | 600.00 | 300.00 |

The maximum fee is \$9,000 for foreign corporations and \$8,250 for domestic corporations. The annual fee for the hypothetical corporation would be \$300.

Income tax. The first Nebraska income tax became effective in 1968. It applies to income earned from operations within the state. The tax is ordinarily called an income tax for foreign corporations and a franchise tax for domestic corporations, but the application of the tax is similar for both types of corporations. The initial tax rate was 2% of the adjusted federal income tax. The federal taxes cannot be deducted in figuring the state income tax. The tax rate is set annually by the State Board of Equalization and Assessment.¹

Assuming the 2% rate, the tax of the hypothetical corporation would be \$3,060.

¹State of Nebraska - Income Tax Regulations, State Tax Commission, compiled to January 1, 1968.

Property tax. Property in Nebraska is ordinarily assessed at 30-35% of market value.¹ The property taxes in selected Nebraska cities are shown in Table III.

¹Industrial Tax Information for Metropolitan Omaha, op. cit., p. 6.

TABLE III

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN NEBRASKA
FOR A HYPOTHETICAL CORPORATION

| City | Market value of property | Assessment ratio | Valuation | Tax rate per \$1,000 of assessed valuation | Total property tax |
|----------------|-----------------------------|---------------------|-----------|--|--------------------------|
| Omaha* | \$1,400,000 | 35% | \$490,000 | \$84.47 | \$41,390 |
| Grand Island** | 1,400,000 | 35% | 490,000 | 107.83 | 52,836 |
| Lincoln*** | 1,400,000 | 35% | 490,000 | 100.00 | 49,000 |

*Letter from the office of the Douglas County Assessor, March 4, 1969.

**Letter from Charles Tillman, Hall County Assessor, February 10, 1969.

***Letter from the office of the Lancaster County Assessor, February 5, 1969.

IV. SOUTH DAKOTA

Organization fees. For domestic corporations there is an organization fee which is graduated from \$40 - \$500 depending on the amount of capital stock.¹ The \$500 fee would apply to the hypothetical corporation.

Annual filing fee. There is an annual fee of \$10 for filing the annual report.²

Income tax. There is no corporate or individual income tax in South Dakota.

Money and credit tax. There is a tax of 4 mills per actual dollar value of all moneys and credit.³ The first \$15,000 of actual value is exempt. The annual tax for the hypothetical corporation is \$20.

Property tax. Property is to be assessed at 60% of true value. However, the ratios vary considerably throughout the state. The taxes in two selected cities are shown in Table IV.

¹Prentice-Hall State and Local Tax Service (South Dakota chart of state tax systems. New York: Prentice-Hall, Inc., June 21, 1966), p. 201.

²Letter from Miss Alma Larson, Secretary of State, South Dakota, March 4, 1969.

³Prentice-Hall State and Local Tax Service, op. cit., p. 202.

TABLE IV

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN SOUTH DAKOTA
FOR A HYPOTHETICAL CORPORATION

| City | Market value of property | Assessment ratio | Valuation | Tax rate per \$1,000 of assessed valuation | Total property tax |
|--------------|-----------------------------|---------------------|-----------|--|--------------------------|
| Sioux Falls* | \$1,400,000 | 42% | \$588,000 | \$81.40 | \$47,864 |
| Brookings** | 1,400,000 | 50% | 700,000 | 64.51 | 45,157 |

*This is Sioux Falls, a publication of the Sioux Falls Chamber of Commerce, p. 2, information current February 1, 1969.

**Letter from Floyd Wiles, Director of Equalization, Brookings County, February 5, 1969.

V. MINNESOTA

Organization fees. There is an initial license fee of \$100 plus \$15 for filing the application for a certificate of authority to do business in Minnesota.¹

Income tax. Minnesota has the highest corporate income tax rate of any state in the study. The regular rate is 8.5%, but there also has been a temporary tax of 1.8% and a surtax of 10% in effect since January 1, 1967. This results in an effective rate of 11.33%.² The 1969 legislature has extended these temporary taxes through the 1970-1971 biennium.³

The tax applies to income earned within the state and federal income taxes are deductible. The tax for the hypothetical corporation would be \$9,517.

Property tax. The method of determining the assessed valuation in Minnesota is different and more complex than the method used in the other states included in the study. First, property is valued at the normal market value. Next, a uniform percentage is applied to the market value, which the Commissioner of Taxation has recommended to be 33 1/3%. Then a classification percentage is applied to the adjusted

¹Letter from Wallace O. Dahl, Minnesota Department of Taxation, June 13, 1969.

²The State and Local Tax System in Minnesota, a report of the Minnesota Department of Taxation, p. 3, January, 1968.

³Letter from Wallace O. Dahl, Minnesota Department of Taxation, June 4, 1969.

market value to determine the final "assessed valuation". The classification ratio varies depending on the type of property. Ordinarily it would be 40% for a corporation's real estate and 33 1/3% for machinery and inventories.¹

The millage rates vary in the state from 200 to 450 mills, with the average being about 300 mills.² The 1967 Tax Reform and Relief Act permits corporations to exempt either inventories or machinery from property taxation.³ Property taxes in selected Minnesota cities for the hypothetical corporation are shown in the following table.

¹Ibid.

²Ibid.

³For the hypothetical corporation, both inventories and machinery are valued at \$200,000 so it would make no difference which type of property were exempted.

TABLE V

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN MINNESOTA
FOR A HYPOTHETICAL CORPORATION

| <u>City</u> | <u>Assessed valuation</u> | <u>Millage rate</u> | <u>Property tax</u> |
|--------------|---------------------------|---------------------|---------------------|
| Minneapolis* | \$155,378 | 303.40 | \$47,142 |
| St. Paul** | 166,640 | 284.30 | 47,376 |
| Rochester*** | 155,378 | 335.34 | 52,104 |

*1968 Budget and Financial Statistics, City of Minneapolis, Board of Estimate and Taxation, 1968, p. 52.

Also the 1969 levy sheet prepared by the Board of Estimate and Taxation for the city of Minneapolis.

**Letter from E. R. Welhanen, Ramsey County Assessor, February 6, 1969.

***Letter from Austin Dunagan, Olmsted County Assessor, February 5, 1969.

VI. WISCONSIN

Organization and filing fees. The corporate organization fee is \$1 per \$1,000 of outstanding capital stock par value.¹ For the hypothetical corporation this would be \$500. There is also an annual fee of \$5 for filing the annual report.²

Income or franchise tax. This tax is referred to as an income tax for foreign corporations and a franchise tax for domestic corporations. However, there is no significant difference between the two types of taxes. The tax rates are:³

| <u>Income</u> | <u>Tax rate</u> |
|-------------------|-----------------|
| 0 - \$1,000 | 2% |
| \$1,000 - \$2,000 | 2½% |
| \$2,000 - \$3,000 | 3% |
| \$3,000 - \$4,000 | 4% |
| \$4,000 - \$5,000 | 5% |
| \$5,000 - \$6,000 | 6% |
| \$6,000 and up | 7% |

¹Information received from the office of the Secretary of State of Wisconsin, February 28, 1969.

²Ibid.

³Wisconsin Corporation Franchise and Income Taxes 1968, Department of Revenue, Wisconsin.

Federal income taxes may be deducted, but the deduction is limited to 10% of net income. The tax for the hypothetical corporation would be \$9,605.

Property tax. The property tax rates of selected cities in Wisconsin are shown in Table VI.

TABLE VI

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN WISCONSIN
FOR A HYPOTHETICAL CORPORATION

| City | Market value of property | Assessment ratio | Valuation | Tax rate per \$1,000 of assessed valuation | Total property tax |
|--------------|-----------------------------|---------------------|-----------|--|--------------------------|
| Madison** | \$1,200,000 | 65% | \$780,000 | \$49.65 | \$44,685 |
| | 200,000* | 60% | 120,000 | 49.65 | |
| Milwaukee*** | 1,200,000 | 55% | 660,000 | 82.20 | 58,167 |
| | 200,000* | | 110,000 | 35.59 | |
| LaCrosse**** | 1,200,000 | 50% | 600,000 | 46.68 | 29,968 |
| | 200,000* | | 100,000 | 19.60 | |

*Inventories.

**Tax information from the Madison Chamber of Commerce, February, 1969.

***Letter from Francis Jendusa, Chief Assessor, City of Milwaukee, January 31, 1969.

****Letter from Charles Whaley, Chief Assessor, City of LaCrosse, April 21, 1969.

VII. ILLINOIS

Corporation organization fees.

1. There is a filing fee of \$75.¹
2. There is an initial license fee of 1/20 of 1% of the amount of stated capital and paid-in surplus.² This would be \$250 in the hypothetical corporation.

Corporation franchise tax. This tax is paid annually one year in advance. It is 1/10 of 1% of stated capital and paid-in surplus.³ The annual fee for the hypothetical corporation would be \$500.

Income tax. The Illinois Legislature passed an income tax law to be effective August 1, 1969. It taxes individuals at a 2 1/2% rate and corporations at 4%.⁴ Corporations may not deduct federal income taxes. The tax for the hypothetical corporation would be \$6,520.

Property tax. The usual assessment ratio in Illinois is 55% of actual value.⁵ Money and credits of foreign corporations are taxed as

¹A Guide to Major Laws Affecting Business in Illinois, Economic Development Department, Illinois State Chamber of Commerce, June, 1968, p. 6.

²Ibid. ³Ibid., p. 7.

⁴Chicago Tribune, "Ogilvie Signs Income Tax," July 2, 1969, p. 1, col. 8

⁵A Guide to Major Laws Affecting Business in Illinois, op. cit., p. 8.

personal property but domestic corporations are exempt. As a result, the money and credit tax will not apply to the hypothetical corporation. The property taxes of the hypothetical corporation in selected cities are shown in Table VII.

TABLE VII

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN ILLINOIS
FOR A HYPOTHETICAL CORPORATION

| City | Assessment ratio | Assessed valuation | Tax rate per \$100 of assessed valuation | Property tax |
|----------------|------------------------|-----------------------|---|--------------|
| Chicago* | 55% | \$770,000 | \$6.000 | \$46,200 |
| Rockford** | 55% 30% (inventory) | 720,000 | 4.447 | 32,018 |
| Springfield*** | 55% | 770,000 | 4.1497 | 31,953 |
| Moline**** | 48% | 672,000 | 5.42 | 36,422 |

*Letters from P. J. Cullerton, Assessor of Cook County, February 4, 1969 and April 17, 1969.

**Information received from a telephone call from the Winnebago County Assessor, February, 1969.

***Letter from Josephine K. Oblinger, County Clerk of Sangamon County, February 5, 1969.

****Letter from Curtis Norton, Moline Township Assessor, June 25, 1969.

VIII. IOWA

Organization fee. There is an initial fee of \$20 to file the Articles of Incorporation.¹

Annual license fee. This fee is paid at the time the annual report is filed. It ranges from \$5 to \$3,000 depending on the amount of stated capital.² The fee for the hypothetical corporation would be \$70.

State income tax. There is a graduated income tax rate applicable to corporations.³

| | |
|--------------------------|----|
| First \$25,000 of income | 4% |
| \$25,000 - \$100,000 | 6% |
| \$100,000 and over | 8% |

One half of the federal income tax can be included as a deduction. The state income tax of the hypothetical corporation would be \$7,100. The tax is applicable only to income derived from within the state.

Property tax (moneys and credit). All moneys and credits are taxed at 6 mills per dollar of actual value.⁴ The first \$5,000 is exempted from taxation. The tax of the hypothetical corporation would be \$90.

¹Legal Aspects of Doing Business in Iowa, Iowa Development Commission, 1968, p. 2.

²Ibid., pp. 3, 4.

³Ibid., pp. 29-32.

⁴Ibid., pp. 39, 40.

Property tax. Property must be assessed at 27% of the market value.¹ Machinery in the plant is considered to be real estate property and inventories are considered to be personal property. As part of the 1967 tax legislation, a \$2,500 exemption on assessed valuation is granted on inventories.² This was designed as an aid to the small businessman. In the table showing the summary property tax information, all cities have met the 27% assessment requirement and the millage rates are those payable in 1969.³

¹Ibid., pp. 38, 39.

²Des Moines Sunday Register, "A Vigorous Drive by Industry to Reduce State Taxes," January 12, 1969, p. 3-A, col. 3

³Des Moines Sunday Register, "Rank 21 City Tax Levies," June 15, 1969, p. 2-T, col. 1.

TABLE VIII

SUMMARY OF PROPERTY TAXES OF SELECTED CITIES IN IOWA
FOR A HYPOTHETICAL CORPORATION

| City | Millage rate | Property tax |
|----------------|--------------|--------------|
| Cedar Rapids | 124.006 | \$46,564 |
| Council Bluffs | 131.114 | 49,233 |
| Davenport | 115.696 | 43,444 |
| Des Moines | 129.532 | 48,640 |
| Dubuque | 109.246 | 41,019 |
| Mason City | 108.412 | 40,708 |
| Ottumwa | 141.721 | 53,216 |
| Sioux City | 119.462 | 44,859 |
| Waterloo | 119.270 | 44,787 |

CHAPTER III

COMPARISON BY TYPES OF TAXES

To facilitate comparisons of a particular tax, each major tax is broken down in this chapter to a state by state or city by city basis.

State income tax. Seven of 8 states in the study levy a corporate income tax. Only income earned from business within the state is taxed. There is a significant difference if the state allows deduction of the federal income tax. That portion of the federal income tax which applies to earnings within the state would be deductible. A summary of tax rates is shown in Table IX.¹

TABLE IX

STATE INCOME TAX RATES

| State | Tax rate | Is federal income tax deductible? |
|--------------|----------|-----------------------------------|
| Missouri | 2% | Yes |
| Kansas | 4½% | Yes |
| Nebraska | 2% | No |
| South Dakota | --- | --- |
| Minnesota | 11.33% | Yes |
| Wisconsin | 7%* | 10% of net income |
| Illinois | 4% | No |
| Iowa | 8%* | 50% is deductible |

*Both states have "progressive" rates and the maximum percentage is shown.

¹The sources for the states' income taxes were cited in Chapter II.

City income tax. The only cities in the study which levy a city income tax are St. Louis and Kansas City, Missouri. In St. Louis, the rate is 1% of all salaries, wages, and commissions (paid by employee) and 1% of corporate earnings obtained from business activity in St. Louis.¹

In Kansas City, Missouri, the rate is 1/2 of 1% of salaries, wages, commissions, and 1/2 of 1% of corporate earnings resulting from business within the city of Kansas City, Missouri.²

It will be shown in Chapter IV that state and local corporate taxes are relatively low in these two cities. Part of the reason may be due to the city income tax which accounts for a significant part of the revenue obtained by each city. For example, in 1966, St. Louis obtained 34% of its revenue and Kansas City obtained 22% of its revenue from the city income tax.³ The tax is borne more by the employees than the corporation itself. For example, in St. Louis the hypothetical corporation would pay only \$180 per year (assuming 20% of the sales are within the city of St. Louis) while the employees of the hypothetical corporation would pay a city income tax of \$5,000 (assuming a payroll of \$500,000 annually).

Unemployment compensation. The federal government imposes an un-

¹Tax information received from the Chamber of Commerce of Metropolitan St. Louis, February 28, 1969.

²Tax information received from the Chamber of Commerce of Greater Kansas City, April 16, 1969.

³Elizabeth Deran, "Tax Structure of Cities using the Income Tax," National Tax Journal, XXI (June, 1968), p. 148.

employment compensation tax of 3.1% on all employers of 4 or more persons. The tax applies to wages up to \$3,000. A credit of 2.7% of wages is allowed for contributions to state unemployment insurance programs. The actual contribution of the employer is based primarily upon the employment experience of the firm. The average rates in the states in the study were all considerably lower than 2.7%. The average employer contribution rates in 1967 were:¹

| | |
|--------------|------|
| Missouri | 1.3% |
| Kansas | 1.4% |
| Nebraska | 1.0% |
| South Dakota | 0.9% |
| Minnesota | 1.3% |
| Wisconsin | 1.5% |
| Illinois | 0.8% |
| Iowa | 0.6% |

These rates compare to the national average of 1.9%. The rate payable by the corporation depends primarily on the corporation's own experience ratio rather than the average state rate, so no state comparison using the hypothetical corporation has been attempted.

Property tax. The bulk of local revenue is obtained from the

¹United States Department of Commerce, Bureau of Census, Statistical Abstract of the United States, 1968 (Washington, D.C.: United States Government Printing Office), 1968, pp. 294-295.

property tax. In many cases, this is the only source of revenue for local governments.

The market value of the property is determined by the county, township, or city assessor. Next, an assessment ratio is applied to the market value to determine the assessed valuation. After the local government determines the financial needs of the city government, county government, and the school district, this sum is divided by the total assessed valuation of the property. This results in the tax rate or millage rate that is applied to the assessed valuation of the property of the individual or corporation.

There is basis for criticism of the administration of the property tax. Assessors may be elected or political appointees and, as a result, often lack qualifications for the job. They may not have the ability to properly assess industrial property. There is also a tendency to undervalue to avoid criticism.¹ In addition, property may not be revalued for several years, and the assessment can rapidly become out-of-date with the rapidly rising property values. Assessment of personal property such as inventories and machinery is especially difficult.

The assessors in many states are required by state law to use standard assessment ratios. This is especially important in a state such as Iowa, where the state returns funds to the local government for "property tax relief".

¹John F. Due, Government Finance (third edition; Homewood, Illinois: Richard D. Irwin, Inc., 1963), p. 362.

In the hypothetical corporation, the tax was applied to buildings and machinery assumed to be new. Corporations with used buildings and machinery would probably avoid paying as much in property taxes because of the difficulty in assessment described previously. Often a corporation can build outside the city limits and obtain a lower property tax rate. The examples in this study assume a location within the city limits.

The property tax of the cities in the study are summarized. To make a comparison more meaningful, the annual property tax paid is expressed in terms of a percentage of the market value of the property.

The effective property tax rates are shown in Table X.¹

TABLE X

EFFECTIVE PROPERTY TAX RATES
FOR A HYPOTHETICAL CORPORATION

Missouri

| | |
|-------------|------|
| St. Joseph | 2.2% |
| Kansas City | 2.1% |
| Columbia | 1.9% |
| Springfield | 1.8% |
| St. Louis | 1.7% |

Kansas

| | |
|-------------|------|
| Kansas City | 3.3% |
| Wichita | 3.3% |
| Topeka | 2.5% |

¹The sources of the property taxes were cited in Chapter II. The percentage is derived by dividing the property tax by the market value of the property.

TABLE X (continued)

| | |
|----------------|------|
| Nebraska | |
| Grand Island | 3.8% |
| Lincoln | 3.5% |
| Omaha | 3.0% |
| South Dakota | |
| Sioux Falls | 3.4% |
| Brookings | 3.2% |
| Minnesota | |
| Rochester | 3.7% |
| Minneapolis | 3.4% |
| St. Paul | 3.4% |
| Wisconsin | |
| Milwaukee | 4.2% |
| Madison | 3.2% |
| LaCrosse | 2.1% |
| Illinois | |
| Chicago | 3.3% |
| Moline | 2.6% |
| Rockford | 2.3% |
| Springfield | 2.3% |
| Iowa | |
| Ottumwa | 3.8% |
| Council Bluffs | 3.5% |
| Des Moines | 3.5% |
| Cedar Rapids | 3.3% |
| Sioux City | 3.2% |
| Waterloo | 3.2% |
| Davenport | 3.1% |
| Dubuque | 2.9% |
| Mason City | 2.9% |

Sales and use tax. These taxes have become a significant source of state tax revenue. Sales and use taxes are ordinarily borne by the purchaser of tangible personal property at the retail level. Corporations do not pay this tax on material used in the manufacture of their product. They may pay on such items as machinery and office equipment. The sales tax applies to goods purchased within the state and the use tax applies to goods purchased outside the state. Although the sales tax is a major source of state revenue, the rate of the tax does not significantly affect the costs of a corporation and no comparisons have been made regarding the hypothetical corporation. The sales and use tax rates of the states in the study are:¹

| <u>State</u> | <u>Sales and use tax rate</u> |
|--------------|-----------------------------------|
| Missouri | 3% |
| Kansas | 3% |
| Nebraska | 2½% |
| South Dakota | 3% |
| Minnesota | 3% |
| Wisconsin | 3% |
| Illinois | 5% |
| Iowa | 3% |

¹These rates were obtained from sources cited in Chapter II.

Several of the states levy the sales tax on certain types of services in addition to tangible personal property. Most services in Iowa are subject to the sales tax, as a result of the 1967 tax legislation. However, two controversial features of this legislation, sales tax on construction and advertising, were repealed by the 1969 legislature.¹

Missouri exempts machinery used in manufacturing from sales taxation.² This could be significant in certain types of industry where frequent retooling is necessary. This tax has not been included in the comparative study, but it should be noted that it could be an important savings in Missouri for certain types of industries.

¹Des Moines Sunday Register, "The Bills Enacted by the 1969 Legislature," June 15, 1969, p. 4-T, col. 8.

²Management's Guide to Missouri Taxes, op. cit., p. 15.

CHAPTER IV

CITY TAX COMPARISONS

The various taxes will be summed up in this chapter to illustrate how the total tax load of the hypothetical corporation varies from city to city. Table XI shows each city with property taxes, state income taxes, and other state and local taxes listed.¹ The federal income tax and the net income retained in the business are also calculated.

State and local taxes may be deducted when the federal income tax is computed. This significantly reduces the effect of state and local taxes and must be taken into consideration when tax comparisons are made. For instance, an increase of \$1,000 in local taxes for the hypothetical corporation would result in a \$528 reduction in the federal income tax.

The normal federal corporate income tax rate is 22% for the first \$25,000 of income and 48% for all income over \$25,000. A surtax of 10% has also been in effect since January 1, 1968. This results in an effective rate of 24.2% for the first \$25,000 of income and 52.8% of income over \$25,000. The surtax is included in the computation of the federal income tax in the following table since it is anticipated at the time of writing that the surtax would be in effect until at least January 1, 1970.

¹The sources for the taxes in Table XI were cited in Chapter II.

TABLE XI

NET INCOME RETAINED IN BUSINESS FOR A HYPOTHETICAL CORPORATION

| | Ottumwa Iowa | Council Bluffs Iowa | Des Moines Iowa | Cedar Rapids Iowa | Sioux City Iowa | Waterloo Iowa |
|--|------------------|---------------------------|--------------------|-------------------------|-----------------------|------------------|
| Net income before deduction of taxes | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> |
| State and local taxes: | | | | | | |
| Real property tax | \$ 38,265 | \$ 35,401 | \$ 34,974 | \$ 33,482 | \$ 32,254 | \$ 32,203 |
| Personal property tax: | | | | | | |
| Inventories | 7,298 | 6,752 | 6,671 | 6,386 | 6,154 | 6,144 |
| Machinery | 7,653 | 7,080 | 6,995 | 6,696 | 6,451 | 6,440 |
| State income tax | 7,100 | 7,100 | 7,100 | 7,100 | 7,100 | 7,100 |
| Other taxes | <u>160</u> | <u>160</u> | <u>160</u> | <u>160</u> | <u>160</u> | <u>160</u> |
| Total state and local taxes | \$ 60,476 | \$ 56,493 | \$ 55,900 | \$ 53,824 | \$ 52,119 | \$ 52,047 |
| Federal income tax (includ- ing 10% surtax) | <u>66,519</u> | <u>68,622</u> | <u>68,935</u> | <u>70,031</u> | <u>70,931</u> | <u>70,969</u> |
| TOTAL TAXES | <u>\$126,995</u> | <u>\$125,115</u> | <u>\$124,835</u> | <u>\$123,855</u> | <u>\$123,050</u> | <u>\$123,016</u> |
| Net income retained in business | \$ 73,005 | \$ 74,885 | \$ 75,165 | \$ 76,145 | \$ 76,950 | \$ 76,984 |

TABLE XI (continued)

| | Davenport Iowa | Dubuque Iowa | Mason City Iowa | Sioux Falls So. Dakota | Brookings So. Dakota |
|--|-------------------|------------------|--------------------|---------------------------|-------------------------|
| Net income before deduction of taxes | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> |
| State and local taxes: | | | | | |
| Real property tax | \$ 31,237 | \$ 29,496 | \$ 29,271 | \$ 34,188 | \$ 32,255 |
| Personal property tax: | | | | | |
| Inventories | 5,959 | 5,624 | 5,583 | 6,838 | 6,451 |
| Machinery | 6,248 | 5,899 | 5,854 | 6,838 | 6,451 |
| State income tax | 7,100 | 7,100 | 7,100 | --- | --- |
| Other taxes | <u>160</u> | <u>160</u> | <u>160</u> | <u>30</u> | <u>30</u> |
| Total state and local taxes | \$ 50,704 | \$ 48,279 | \$ 47,968 | \$ 47,894 | \$ 45,187 |
| Federal income tax (includ- ing 10% surtax) | <u>71,678</u> | <u>72,959</u> | <u>73,123</u> | <u>73,162</u> | <u>74,591</u> |
| TOTAL TAXES | <u>\$122,382</u> | <u>\$121,238</u> | <u>\$121,091</u> | <u>\$121,056</u> | <u>\$119,778</u> |
| Net income retained in business | \$ 77,618 | \$ 78,762 | \$ 78,909 | \$ 78,944 | \$ 80,222 |

TABLE XI (continued)

| | Rochester Minnesota | St. Paul Minnesota | Minneapolis Minnesota | Milwaukee Wisconsin | Madison Wisconsin | LaCrosse Wisconsin |
|--|------------------------|-----------------------|--------------------------|------------------------|----------------------|-----------------------|
| Net income before deduction of taxes | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> |
| State and local taxes: | | | | | | |
| Real property tax | \$ 44,667 | \$ 39,802 | \$ 40,413 | \$ 45,210 | \$ 32,272 | \$ 23,340 |
| Personal property tax: | | | | | | |
| Inventories | 7,437 | 7,574 | 6,729 | 3,915 | 5,958 | 1,960 |
| Machinery | --- | --- | --- | 9,042 | 6,455 | 4,668 |
| State income tax | 9,517 | 9,517 | 9,517 | 9,605 | 9,605 | 9,605 |
| Other taxes | --- | --- | --- | 5 | 5 | 5 |
| Total state and local taxes | \$ 61,621 | \$ 56,893 | \$ 56,659 | \$ 67,777 | \$ 54,295 | \$ 39,578 |
| Federal income tax (includ- ing 10% surtax) | <u>65,914</u> | <u>68,410</u> | <u>68,534</u> | <u>62,664</u> | <u>69,782</u> | <u>77,553</u> |
| TOTAL TAXES | <u>\$127,535</u> | <u>\$125,303</u> | <u>\$125,193</u> | <u>\$130,441</u> | <u>\$124,077</u> | <u>\$117,131</u> |
| Net income retained in business | \$ 72,465 | \$ 74,697 | \$ 74,807 | \$ 69,559 | \$ 75,923 | \$ 82,869 |

TABLE XI (continued)

| | Chicago Illinois | Moline Illinois | Rockford Illinois | Springfield Illinois |
|--|---------------------|--------------------|----------------------|-------------------------|
| Net income before deduction of taxes | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> |
| State and local taxes: | | | | |
| Real property tax | \$ 33,000 | \$ 26,016 | \$ 24,458 | \$ 22,823 |
| Personal property tax: | | | | |
| Inventories | 6,600 | 5,203 | 2,668 | 4,565 |
| Machinery | 6,600 | 5,203 | 4,892 | 4,565 |
| State income tax | 6,520 | 6,520 | 6,520 | 6,520 |
| Other taxes | <u>500</u> | <u>500</u> | <u>500</u> | <u>500</u> |
| Total state and local taxes | \$ 53,220 | \$ 43,442 | \$ 39,038 | \$ 38,973 |
| Federal income tax (includ- ing 10% surtax) | <u>70,350</u> | <u>75,513</u> | <u>77,838</u> | <u>77,872</u> |
| TOTAL TAXES | <u>\$123,570</u> | <u>\$118,955</u> | <u>\$116,876</u> | <u>\$116,845</u> |
| Net income retained in business | \$ 76,430 | \$ 81,045 | \$ 83,124 | \$ 83,155 |

TABLE XI (continued)

| | Kansas City Missouri | St. Joseph Missouri | St. Louis Missouri | Columbia Missouri | Springfield Missouri |
|--|-------------------------|------------------------|-----------------------|----------------------|-------------------------|
| Net income before deduction of taxes | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> |
| State and local taxes: | | | | | |
| Real property tax | \$ 18,960 | \$ 21,870 | \$ 18,620 | \$ 19,260 | \$ 18,180 |
| Personal property tax: | | | | | |
| Inventories | 6,320 | 4,374 | 2,856 | 3,852 | 3,636 |
| Machinery | 4,171 | 4,374 | 2,856 | 3,852 | 3,636 |
| State income tax | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 |
| Other taxes | <u>2,550</u> | <u>760</u> | <u>4,440</u> | <u>935</u> | <u>760</u> |
| Total state and local taxes | \$ 33,801 | \$ 33,178 | \$ 30,572 | \$ 29,699 | \$ 28,012 |
| Federal income tax (includ- ing 10% surtax) | <u>80,603</u> | <u>80,932</u> | <u>82,308</u> | <u>82,769</u> | <u>83,660</u> |
| TOTAL TAXES | <u>\$114,404</u> | <u>\$114,110</u> | <u>\$112,880</u> | <u>\$112,468</u> | <u>\$111,672</u> |
| Net income retained in business | \$ 85,596 | \$ 85,890 | \$ 87,120 | \$ 87,532 | \$ 88,328 |

TABLE XI (continued)

| | Wichita Kansas | Kansas City Kansas | Topeka Kansas | Grand Island Nebraska | Lincoln Nebraska | Omaha Nebraska |
|--|-------------------|--------------------------|------------------|-----------------------------|---------------------|-------------------|
| Net income before deduction of taxes | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> | <u>\$200,000</u> |
| State and local taxes: | | | | | | |
| Real property tax | \$ 32,838 | \$ 22,906 | \$ 25,421 | \$ 37,740 | \$ 35,000 | \$ 29,564 |
| Personal property tax: | | | | | | |
| Inventories | 6,568 | 11,453 | 5,084 | 7,548 | 7,000 | 5,913 |
| Machinery | 6,568 | 11,453 | 5,084 | 7,548 | 7,000 | 5,913 |
| State income tax | 3,825 | 3,825 | 3,825 | 3,060 | 3,060 | 3,060 |
| Other taxes | <u>530</u> | <u>530</u> | <u>530</u> | <u>300</u> | <u>300</u> | <u>300</u> |
| Total state and local taxes | \$ 50,329 | \$ 50,167 | \$ 39,944 | \$ 56,196 | \$ 52,360 | \$ 44,750 |
| Federal income tax (includ- ing 10% surtax) | <u>71,876</u> | <u>71,962</u> | <u>77,360</u> | <u>68,778</u> | <u>70,804</u> | <u>74,822</u> |
| TOTAL TAXES | <u>\$122,205</u> | <u>\$122,129</u> | <u>\$117,304</u> | <u>\$124,974</u> | <u>\$123,164</u> | <u>\$119,572</u> |
| Net income retained in business | \$ 77,795 | \$ 77,871 | \$ 82,696 | \$ 75,026 | \$ 76,836 | \$ 80,428 |

Tax comparisons of largest cities. The state and local taxes for the hypothetical corporation are shown for cities having over 300,000 population.

| | |
|---------------------|----------|
| 1. Milwaukee | \$67,777 |
| 2. St. Paul | 56,893 |
| 3. Minneapolis | 56,659 |
| 4. Chicago | 53,220 |
| 5. Omaha | 44,750 |
| 6. Kansas City, Mo. | 33,801 |
| 7. St. Louis | 30,572 |

Tax comparisons of medium sized cities. The state and local taxes for the hypothetical corporation in cities of 100,000 - 300,000 population are:

| | |
|-----------------------|----------|
| 1. Des Moines | \$55,900 |
| 2. Madison | 54,295 |
| 3. Cedar Rapids | 53,824 |
| 4. Lincoln | 52,360 |
| 5. Wichita | 50,329 |
| 6. Kansas City, Kans. | 50,167 |
| 7. Topeka | 39,944 |
| 8. Rockford | 39,038 |

Tax comparisons of cities with population of 45,000 - 100,000 are:

| | |
|----------------------|----------|
| 1. Rochester | \$61,621 |
| 2. Sioux City | 52,119 |
| 3. Waterloo | 52,047 |
| 4. Davenport | 50,704 |
| 5. Dubuque | 48,279 |
| 6. Sioux Falls | 47,894 |
| 7. LaCrosse | 39,578 |
| 8. Springfield, Ill. | 38,973 |
| 9. St. Joseph | 33,178 |
| 10. Springfield, Mo. | 28,012 |

Comparison of larger and smaller cities. The state and local taxes of the 16 largest cities in the survey were compared to the state and local taxes of the 16 smallest cities. The average (mean) tax of the hypothetical corporation is:

| | |
|----------------|----------|
| Larger cities | \$47,971 |
| Smaller cities | 47,741 |

Comparison by state. The state and local tax of each city within a state was averaged (mean average) and the results are:

| | |
|--------------|----------|
| 1. Minnesota | \$58,391 |
| 2. Wisconsin | 53,883 |
| 3. Iowa | 53,090 |
| 4. Nebraska | 51,102 |

| | |
|-----------------|----------|
| 5. Kansas | \$46,613 |
| 6. South Dakota | 46,540 |
| 7. Illinois | 43,668 |
| 8. Missouri | 31,052 |

These are the taxes of only the selected cities in the study and it does not necessarily indicate that the states would rank in this order if all cities in the state were included.

Comparison of a metropolitan area. The most costly tax for a business will be the property tax. It is often possible for a corporation to locate outside the city limits to reduce property taxes and yet enjoy many of the advantages of the area such as labor availability, proximity to the market, transportation, etc. On the negative side, city services such as police protection, fire protection, water supply and sewage facilities may not be satisfactory in suburban locations. A comparison of metropolitan locations for the Des Moines area is shown in Table XII.

TABLE XII

PROPERTY TAX RATES IN THE DES MOINES METROPOLITAN AREA

| City | 1969 millage rate* | Total property tax for the hypothetical corporation |
|-----------------|-----------------------|--|
| Urbandale | 150.43 | \$56,486 |
| Des Moines | 129.53 | 48,640 |
| Ankeny | 126.42 | 47,470 |
| West Des Moines | 122.61 | 46,040 |
| Clive | 112.46 | 42,229 |
| Windsor Heights | 104.55 | 39,259 |
| Saylorville | 102.04 | 38,316 |
| Pleasant Hill | 101.23 | 38,012 |

*Des Moines Tribune, "Tax Peak for Des Moines Residents," March 12, 1969, p. 1, col. 8.

CHAPTER V

SOURCES AND USES OF TAX REVENUE

It would be well to put the taxation of corporations into perspective. State tax revenue is received from a variety of sources as shown in Table XIII. The only significant part of this received directly from corporations is the corporate income tax. Table XIII shows that this is 10% or less of total state revenue in the states in the survey. Table XIV shows how the states use the revenue.

The bulk of local revenue is received from the property tax. Table XV indicates the percentage of local taxes obtained from this tax. Also shown is the percentage of total state and local revenue received from the property tax. The last column in Table XV indicates the percentage of property taxes received from commercial and industrial property in each state. The largest single use of the property tax is education. In Des Moines, for example, 49% of total property tax revenue is used for education.¹

¹Des Moines Tribune, "Tax Peak for Des Moines Residents," March 12, 1969, p. 1, col. 8.

TABLE XIII

1968 STATE TAX REVENUE BY SOURCE (PERCENTAGE)*

| State | General sales tax revenue | Selective taxes including motor fuel, alcoholic beverages, tobacco | License taxes | Individual income | Corporation income | Other |
|---------------|------------------------------|---|------------------|----------------------|-----------------------|-------|
| Missouri | 41% | 24% | 13% | 16% | 4% | 2% |
| Kansas | 35% | 25% | 11% | 18% | 6% | 5% |
| Nebraska | 33% | 41% | 10% | 7% | 1% | 8% |
| South Dakota | 37% | 44% | 16% | --- | --- | 3% |
| Minnesota | 14% | 27% | 9% | 33% | 8% | 9% |
| Wisconsin | 11% | 22% | 8% | 41% | 10% | 8% |
| Illinois | 50% | 35% | 13% | ** | ** | 2% |
| Iowa | 32% | 28% | 15% | 17% | 4% | 4% |
| United States | 29% | 29% | 11% | 17% | 7% | 7% |

*United States Department of Commerce, Bureau of the Census, State Government Finances in 1968 (Washington, D.C.: United States Government Printing Office, 1969), pp. 20-27.

**The state income tax did not go into effect in Illinois until August 1, 1969.

TABLE XIV

EXPENDITURE OF STATE REVENUE (PERCENTAGE)*

| State | Education | Highways | Public welfare | Hospitals | Natural resources | Other |
|---------------|-----------|----------|----------------|-----------|-------------------|-------|
| Missouri | 41% | 21% | 16% | 7% | 4% | 11% |
| Kansas | 44% | 20% | 12% | 7% | 4% | 13% |
| Nebraska | 33% | 28% | 14% | 8% | 6% | 11% |
| South Dakota | 35% | 33% | 10% | 4% | 5% | 13% |
| Minnesota | 42% | 20% | 10% | 6% | 3% | 19% |
| Wisconsin | 37% | 14% | 11% | 5% | 3% | 30% |
| Illinois | 40% | 21% | 18% | 7% | 2% | 12% |
| Iowa | 42% | 26% | 11% | 5% | 3% | 13% |
| United States | 40% | 20% | 14% | 6% | 3% | 17% |

*State Government Finances in 1968, op. cit., pp. 29-38.

TABLE XV

PROPERTY TAXES - PERCENTAGES

| State | % of local revenue* | % of total state and local revenue* | % that industrial and commercial property is of total real property** |
|--------------|---------------------|-------------------------------------|---|
| Missouri | 82% | 39% | 23% |
| Kansas | 97% | 49% | 12% |
| Nebraska | 94% | 72% | 11% |
| South Dakota | 95% | 56% | 10% |
| Minnesota | 98% | 50% | 28% |
| Wisconsin | 98% | 45% | 26% |
| Illinois | 89% | 51% | 24% |
| Iowa | 99% | 51% | 14% |

*United States Department of Commerce, Bureau of the Census, Taxable Property Values (Washington, D.C.: United States Government Printing Office, 1967), p. 27.

**Ibid., p. 44.

The information in the tables in this chapter shows that the bulk of state and local taxes are raised from other than corporate tax sources. The largest single source of state revenue is the sales tax. The corporate state income tax is 10% or less of total state revenue in each state in the study. The property tax accounts for practically all of the revenue of local governments. In the states included in the study, the average percentage of property taxes received from commercial and industrial property varied from 10% to 28%. The primary use of both state and local tax revenue is for education.

CHAPTER VI

EFFECT OF TAXES ON INDUSTRIAL DEVELOPMENT

Business groups have resisted attempts by state legislatures to increase taxes applicable to corporations. The fear is expressed that higher taxes will "drive industry out" and discourage out of state businesses from locating within the state.

One of the most spectacular examples where corporate tax incentives have been successful has been Puerto Rico. After World War II, new corporations were exempt from property and state income taxes for 10 years. The results were described in Business Week,

In the thirteen years since agrarian Puerto Rico began to offer incentives to stimulate its industrial development, 700 manufacturing plants have been established on the island. They have provided 50,000 jobs, and boosted total personal income from \$600 million to more than \$1.4 billion Four out of five of the plants are owned by U.S. mainland companies and individuals.¹

Studies have shown, however, that taxes may be somewhat over-rated as a factor in industrial development. A survey of the area development managers of electric utilities showed that such factors as labor availability, market proximity, transportation, water supply, existing wage rates, and construction costs were considered more important than the state and local tax situation in the selection of a

¹"Puerto Rico Pushes Home Owned Industry," Business Week (September 23, 1961), pp. 186.

plant site.¹ John F. Due, in a study of industrial location and development in 1961, concluded that "relatively high business tax levels do not have the disastrous effects claimed for them".² On the other hand, he did feel that high taxes may be an important contributing factor to the reputation of the "business climate" of the state.³

In the previous chapter it was shown that total federal, state and local taxes varied in the hypothetical corporation from a high of \$130,670 in Milwaukee to a low of \$111,672 in Springfield, Missouri. The net income retained in the business would vary from \$69,330 in Milwaukee to \$88,328 in Springfield. This would appear to be a significant difference if a firm happened to be choosing between these two cities for a plant location.

The primary objective of this study is to compare corporate taxation. However, since tax comparisons are available, an additional step will be taken to attempt to correlate taxes with industrial development.

The measure of industrial development used is the rate of growth of payroll from 1964-67. If it is believed that high taxes adversely affect the rate of development, then it would be expected that high tax areas would have a relatively low rate of payroll growth and vice versa.

¹Joseph L. Mazel, "Industrial Site Selection Today," Factory, CXXVI (May, 1968) pp. 88-97.

²John F. Due, "Studies of State - Local Tax Influences on Location of Industry," National Tax Journal, XIV (June, 1961) p. 171.

³Ibid.

This data, taken from County Business Patterns, applies to the county payroll, the bulk of which should be earned within the city limits.¹ The payroll figures shown in Table XVI have been adjusted by the Consumers Price Index to reflect 1957-58 prices. The table also shows the average annual percentage gain of payrolls.

The state and local taxes and the percentage of payroll increase are ranked in order in Table XVII for each city in the study. If it is believed that high taxes adversely affect industrial development, a negative correlation would be expected. However, the correlation is $+0.32$ which indicates that higher tax cities must have other favorable factors which more than offset the negative effect of high taxes.

Obviously there are limitations in using these results to reach conclusions regarding the effect of taxes on industrial development. First, the assumption was made that payrolls are a measure of industrial development. Second, the payroll data covers the entire county, while the taxes apply only within the city limits. Third, and most important, the correlation assumes that all other conditions are equal, while obviously the tax is only one of a number of variables that affect location or expansion of existing facilities.

¹Department of Commerce, Bureau of the Census, County Business Patterns (Washington, D.C.: United States Government Printing Office) Data taken from 1965, 1966, and 1967 editions.

TABLE XVI

GROWTH OF PAYROLL BY CITY

| | Adjusted payroll (millions) | | | | Average % of payroll growth |
|--------------|-----------------------------|-------|-------|-------|-----------------------------|
| | 1964 | 1965 | 1966 | 1967 | |
| Missouri | | | | | |
| Columbia | 11.0 | 11.5 | 12.7 | 13.8 | 7.9 |
| Kansas City | 310 | 317 | 342 | 367 | 5.8 |
| Springfield | 32.0 | 33.6 | 36.0 | 38.3 | 6.2 |
| St. Joseph | 26.4 | 26.1 | 27.7 | 28.5 | 2.6 |
| Kansas | | | | | |
| Kansas City | 65.1 | 67.2 | 67.6 | 67.9 | 1.4 |
| Topeka | 35.2 | 36.9 | 37.9 | 40.3 | 4.6 |
| Wichita | 125.0 | 120.3 | 134.0 | 146.6 | 5.7 |
| Nebraska | | | | | |
| Grand Island | 7.2 | 7.3 | 8.5 | 12.6 | 22.0 |
| Lincoln | 39.7 | 40.2 | 42.3 | 43.9 | 3.4 |
| Omaha | 139 | 141 | 150 | 158 | 4.4 |
| South Dakota | | | | | |
| Brookings | 1.4 | 1.4 | 1.5 | 1.55 | 3.5 |
| Sioux Falls | 27.2 | 26.2 | 28.2 | 28.6 | 1.7 |
| Minnesota | | | | | |
| Minneapolis | 366 | 379 | 410 | 448 | 7.0 |
| Rochester | 23.5 | 24.5 | 28.2 | 29.8 | 8.4 |
| St. Paul | 182 | 183 | 205 | 231 | 8.4 |
| Wisconsin | | | | | |
| LaCrosse | 20.2 | 21.7 | 23.8 | 24.9 | 7.2 |
| Madison | 62.1 | 65.2 | 71.8 | 77.2 | 7.5 |
| Milwaukee | 467 | 481 | 516 | 547 | 5.4 |

TABLE XVI (continued)

| | Adjusted payroll (millions) | | | | Average % of payroll growth |
|----------------|-----------------------------|------|-------|-------|-----------------------------|
| | 1964 | 1965 | 1966 | 1967 | |
| Illinois | | | | | |
| Chicago | 252 | 261 | 281 | 297 | 5.7 |
| Moline | 68.5 | 69.7 | 75.9 | 83.3 | 6.8 |
| Rockford | 93.8 | 99.3 | 109.1 | 120.1 | 8.6 |
| Springfield | 49.5 | 48.0 | 51.2 | 54.9 | 3.6 |
| Iowa | | | | | |
| Cedar Rapids | 58.8 | 58.6 | 64.4 | 71.5 | 6.7 |
| Council Bluffs | 9.2 | 9.9 | 10.0 | 11.6 | 8.2 |
| Davenport | 43.2 | 43.0 | 48.9 | 53.3 | 7.4 |
| Des Moines | 102 | 106 | 115 | 125 | 7.0 |
| Dubuque | 26.9 | 28.6 | 30.8 | 33.4 | 7.5 |
| Mason City | 12.1 | 12.2 | 11.9 | 13.2 | 3.1 |
| Ottumwa | 12.5 | 12.6 | 13.0 | 15.0 | 6.5 |
| Sioux City | 28.9 | 27.8 | 30.2 | 32.6 | 4.2 |
| Waterloo | 43.7 | 41.9 | 46.9 | 53.7 | 7.4 |
| State Totals | | | | | |
| Missouri | 1287 | 1313 | 1422 | 1534 | 6.1 |
| Kansas | 435 | 433 | 464 | 494 | 4.4 |
| Nebraska | 279 | 283 | 302 | 323 | 5.0 |
| South Dakota | 86 | 84 | 88 | 92 | 2.3 |
| Minnesota | 870 | 891 | 985 | 1071 | 7.2 |
| Wisconsin | 1148 | 1186 | 1276 | 1371 | 6.1 |
| Illinois | 3784 | 3928 | 4249 | 4671 | 7.3 |
| Iowa | 566 | 572 | 626 | 689 | 6.9 |

TABLE XVII

CORRELATION OF TAXES AND GROWTH OF PAYROLL

| City | Tax | Rank | Payroll growth % | Rank | D | D ² |
|--------------------|--------|------|---------------------|------|----|----------------|
| Milwaukee | 67,777 | 1 | 5.4 | 21 | 20 | 400 |
| Rochester | 61,621 | 2 | 8.4 | 4 | 2 | 4 |
| Ottumwa | 60,476 | 3 | 6.5 | 16 | 13 | 169 |
| St. Paul | 56,893 | 4 | 8.4 | 3 | 1 | 1 |
| Minneapolis | 56,659 | 5 | 7.0 | 12 | 7 | 49 |
| Council Bluffs | 56,493 | 6 | 8.2 | 5 | 1 | 1 |
| Grand Island | 56,196 | 7 | 22.0 | 1 | 6 | 36 |
| Des Moines | 55,900 | 8 | 7.0 | 13 | 5 | 25 |
| Madison | 54,295 | 9 | 7.5 | 7 | 2 | 4 |
| Cedar Rapids | 53,824 | 10 | 6.7 | 15 | 5 | 25 |
| Chicago | 53,220 | 11 | 5.7 | 19 | 8 | 64 |
| Lincoln | 52,360 | 12 | 3.4 | 28 | 16 | 256 |
| Sioux City | 52,119 | 13 | 4.2 | 25 | 12 | 144 |
| Waterloo | 52,047 | 14 | 7.4 | 10 | 4 | 16 |
| Davenport | 50,704 | 15 | 7.4 | 9 | 6 | 36 |
| Wichita | 50,329 | 16 | 5.7 | 20 | 4 | 16 |
| Kansas City, Kans. | 50,167 | 17 | 1.4 | 32 | 15 | 225 |
| Dubuque | 48,279 | 18 | 7.5 | 8 | 10 | 100 |
| Mason City | 47,968 | 19 | 3.1 | 29 | 10 | 100 |
| Sioux Falls | 47,894 | 20 | 1.7 | 31 | 11 | 121 |
| Brookings | 45,187 | 21 | 3.5 | 27 | 6 | 36 |
| Omaha | 44,750 | 22 | 4.4 | 24 | 2 | 4 |
| Moline | 43,442 | 23 | 6.8 | 14 | 9 | 81 |
| Topeka | 39,944 | 24 | 4.6 | 22 | 2 | 4 |
| LaCrosse | 39,578 | 25 | 7.2 | 11 | 14 | 196 |
| Rockford | 39,038 | 26 | 8.6 | 2 | 24 | 576 |
| Springfield, Ill. | 38,973 | 27 | 3.6 | 26 | 1 | 1 |
| Kansas City, Mo. | 33,801 | 28 | 5.8 | 18 | 10 | 100 |
| St. Joseph | 33,178 | 29 | 2.6 | 30 | 1 | 1 |
| St. Louis | 30,572 | 30 | 4.4 | 23 | 7 | 49 |
| Columbia | 29,699 | 31 | 7.9 | 6 | 25 | 625 |
| Springfield, Mo. | 28,012 | 32 | 6.2 | 17 | 15 | 225 |
| | | | | | | 3690 |

$$r = 1 - \frac{6 \sum(D^2)}{N(N^2 - 1)}$$

$$= 1 - \frac{6.3690}{32(32^2 - 1)}$$

$$= +.32$$

CHAPTER VII

CONCLUSION

The purpose of this study was to determine the costs of taxation for corporations in cities in Iowa and the surrounding states. In addition, an attempt was to be made to determine if there was a correlation between taxes and the rate of industrial development.

This review of taxes reveals that there are many similarities among the states. All depend upon property taxes and sales taxes as the primary source of state and local revenue. State legislatures are concerned about the increasing burden of the property tax and several states (including Iowa, Minnesota, Illinois and Nebraska) have enacted major legislation in the past few years in an attempt to reduce the property tax. All states seem concerned about taxation of business and creating a "favorable business climate". The primary conclusions of the study are:

1. There were substantial differences in state and

local taxes among the cities in the study.

In the hypothetical corporation the state and local taxes varied from a low of \$28,012 in Springfield, Missouri to a high of \$67,777 in Milwaukee. Profits would be 27% higher in Springfield than Milwaukee if all other variables were identical.

2. The cities in Missouri had significantly lower state and local taxes applicable to corporations. The five Missouri cities in the study were the lowest tax cities in the study. The taxes of the cities in Illinois are also relatively low.
3. Corporate taxes in Des Moines and other Iowa cities, while not the highest, were higher than average. Des Moines' taxes ranked eighth of the 32 cities in the study. While Des Moines' taxes were the fourth highest of the eight largest cities, they ranked as the highest tax city of the eight cities in the intermediate size range of 100,000 - 300,000 population.
4. Common sense indicates that corporate taxes should be a factor in the location of industry and development of existing industry. The correlation study in this paper does not indicate, however, that there is a direct correlation. The only conclusion can be that there are a number of other variables, and perhaps more important variables, which affect location and industrial development.

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